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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 001088

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E.O. 12958: DECL: 12/31/2010

TAGS: [EMIN](#) [EFIN](#) [ETRD](#) [PREL](#) [PGOV](#) [ZI](#)

SUBJECT: ZIMPLATS CEO ON CHINESE INTEREST IN PLATINUM
SECTOR, INTERNAL GOZ POLITICS

Classified By: Charge d' Affaires a.i. under Section 1.4 b/d

Summary

1. (C) Zimbabwe Platinum Mines (Zimplats) CEO Greg Sebborn told CDA on July 29 that his company was not worried about China's interest in Zimbabwean platinum in the long-term because China lacked the technological know-how to compete. However, the Chinese could cause short-term problems by leveraging their political influence with Mugabe into control of a part of the deposits. Sebborn speculated that some in China might have realized that Zimbabwean platinum deposits were severely undervalued and would be worth a great deal when the country became more stable. However, such a move would violate Zimplats agreement with the GOZ and lead to arbitration. Sebborn said Zimplats had unsuccessfully sought a meeting with Mugabe to clear the air. In the interval, Solomon Mujuru had offered to be the company's indigenous partner and protector. Sebborn said Mujuru had claimed to be running the country day-to-day and had promised to prevent Chinese involvement in Zimbabwean platinum mining. Sebborn added that the company was still prepared to invest US\$ 2 billion in Zimbabwe but was still waiting for the GOZ to agree. End Summary.

China,s Interest

2. (C) The CDA asked Sebborn about China's reported interest in Zimbabwe's platinum sector. Sebborn responded that China was clearly interested in long-term access to Zimbabwe's platinum deposits, the fifth largest in the world, and was using its political clout with Mugabe to that end. However, China was selling the GOZ a bill of goods. They had promised to build a platinum refinery in return for a share of the deposits but in fact lacked sufficient technical expertise to do so. (N.B. There are only five platinum refineries in the world, two in South Africa.) At best, China could build another base metal refinery similar to the one that Zimplats had already built in Zimbabwe. These refineries produced a semi-processed "conglomerate" that needed to be further refined to extract platinum.

3. (C) Sebborn said his company had told the GOZ that they were willing to talk to potential Chinese investors but feared that the GOZ would instead force Zimplats to give the Chinese a portion of the ore-body. He said the Chinese seemed most interested in the northern end of the deposits, which ran northeast to southwest for nearly 100 kilometers, starting just outside Harare. The northern portion was attractive because it was close to the capital and to water, and because the platinum was relatively close to the surface and easy to mine. However, it was a "greenfield" site that would still require a massive investment even beyond the base metal refinery and Sebborn stated that he had been unable to learn anything about the Chinese company rumored to be involved, Wan Bad. It was not clear that the company even existed except on paper.

4. (C) Sebborn said any such move would violate the agreements signed between the GOZ and his parent company, Impala Platinum (Implats) and would provoke arbitration under Swiss jurisdiction as provided for in the agreement. Moreover, Sebborn questioned China,s motives. He noted China buys the majority of its platinum from Implats and that Implats could easily reduce China's access to platinum by the exact amount that its Zimbabwe affiliate lost as a result of any GOZ deal with China. Instead, he speculated that someone in China might want control of part of Zimbabwe's ore body as

a cheap asset that could later be sold at a huge profit. Due to Zimbabwe's astronomical sovereign risk, Sebborn estimated that the ore body was undervalued by a factor of 10.

Relations With GOZ

15. (C) Sebborn said that although Zimplats did not fear China's interest in the long-term, they were concerned that it could cause delays and confusion in developing the platinum deposits. Zimplats was still prepared to invest US\$2 billion in Zimbabwe. Zimbabwe only needed to properly enforce already existing mining laws, sign an already agreed-to Bilateral Investment Protection Agreement with South Africa, and come up with a detailed credible indigenization scheme that could be implemented. The investment would include a 10-fold increase in Zimplat's local direct hires, plus an additional 55,000 jobs in support industries resulting from the expansion. It would also dwarf the loan package the GOZ was currently negotiating with the South African Government and would not require repayment.

16. (C) However, Sebborn said the GOZ was continuing to drag its feet. Given Mugabe's desire to reward the Chinese, no one wanted to make the wrong decision and agree to a deeper Zimplats investment. Moreover, Zimbabwean officials were deeply distrustful of private enterprise and the mining industry in particular. This was exacerbated because they lacked a clear understanding of how the platinum industry worked. The GOZ officials thought they could purchase platinum from the mine, as they did with gold, using the official exchange rate and then turn the precious metal into hard currency abroad at world prices. In fact, the GOZ had posted monitors at the mines to detect platinum smuggling, when the platinum itself was still part of the semi-processed going to South Africa for further refining.

17. (C) Sebborn said Zimplats had been seeking a meeting with Mugabe for some time to clear up misunderstandings but to no avail. However, in the interval, Solomon Mujuru, the powerful ex-military commander and husband of Vice President Joyce Mujuru, had approached the company offering to be its indigenous partner and protector. Sebborn noted that in so doing, Mujuru was going against Mugabe's wishes. Mugabe had personally picked out Zimplats "indigenous" partner, a group that had so far been unable to obtain the financing needed to buy into the company. Moreover, according to Sebborn, Mujuru had also promised that he would prevent China would from entering the platinum industry. Sebborn said Mujuru had told him that Mugabe was "quite unstable" and subject to dramatic mood swings and that he, Mujuru, was now running the country day-to-day.

Comment

18. (C) Mujuru's claim to be running the government may have been exaggerated to magnify the appeal of his "protection" offer to Zimplats, but it is consistent with other reports we have been hearing that while Mugabe remains firmly in control, he is exercising that control only episodically. The result is increasing government paralysis and a growing power vacuum. It may be the case that no one is truly "running" government operations any more so much as acting in his/her narrow personal interest; and the Mujuru's sway and energy in that regard are unrivaled save by the aging and increasingly distant Mugabe himself.

19. (C) South African diplomats have stressed to us SAG concern about Chinese designs on Zimbabwe's platinum, but mining insiders here share Sebborn's dismissive attitude about prospects for any Chinese platinum refining plant. Mining is the sector perhaps most poised to revive in Zimbabwe's gasping economy, but even it remains constricted by GOZ incompetence and the narrow avarice of key ruling party figures.
SCHULTZ